TESTIMONY OF SCOTT G. HAUGE PRESIDENT

SMALL BUSINESS CALIFORNIA

ON BEHALF OF THE

NATIONAL SMALL BUSINESS ASSOCIATION

AT A HEARING BEFORE THE

COMMITTEE ON SMALL BUSINESS AND ENTREPRENEURSHIP

U.S. SENATE ENTITLED

"SMALL BUSINESS SOLUTIONS FOR COMBATING CLIMATE CHANGE"

MARCH 8, 2007

Chairman Kerry, Ranking Member Snowe, and members of the committee, thank you for inviting me here today to testify on the vital issue of climate change and for recognizing the important role America's small businesses can and should play in any effort to combat it. I also would like to thank Senator Boxer, from my home state, for her leadership on the issue.

I am Scott Hauge, owner and president of CAL Insurance and Associates, located in San Francisco, which specializes in providing insurance for small to medium-sized businesses. Founded in 1927, the firm currently has 32 employees. I also serve as president of Small Business California, a nonpartisan, grassroots, small-business advocacy organization, and vice chair of advocacy for the National Small Business Association (NSBA), the oldest small-business advocacy organization in the United States—reaching more than 150,000 small-business owners across the nation. In fact, I am proud to serve in the leadership of NSBA as we celebrate our 70th year of small-business advocacy, and I look forward to continuing NSBA's long-standing tradition of working in a nonpartisan manner to promote pro-small-business policies.

While I appear before you today wearing the hats of both associations, their respective policy positions are not identical and I want to be careful to distinguish between the two groups in my remarks. I also want to stress that whatever the policy differences between the two associations may be, both organizations recognize that global climate change is real.

Small Business California and the National Small Business Association also are steadfast in their shared belief that if America is serious about confronting the specter of global climate change, the deficiencies of its national energy policy, and the environmental, economic, and security threats posed by its oil dependence, small businesses must be comprehensively involved in the effort. Why? Small businesses comprise 99.7 percent of all U.S. employer firms and more than half of all private-sector employees. Small businesses also produce more than half of the private sector output and consume nearly half of all of the electricity and natural gas used for commercial and industrial purposes in the United States. It is both unfair and unwise to attempt to address this serious issue without the input and collaboration of America's small businesses.

SMALL BUSINESS CALIFORNIA

I would like to begin my remarks by addressing the role Small Business California played in the August 2006 passage of Assembly Bill 32 (*AB 32*), the *Global Warming Solutions Act*, which limits the state's global warming emissions to 1990 levels by 2020, providing incentives to businesses to reduce emissions through market mechanisms. The bill also requires the California Air Resources Board to institute a mandatory emissions reporting and tracking system to monitor and enforce compliance with the emissions limit. With the passage of *AB 32*, California became the first state in the nation to limit statewide global warming pollution. The first general business association in California to support *AB 32* was Small Business California. We supported *AB 32* because we believe that global warming is real and that the issue is best addressed by premeditated planning rather than capricious reaction to a crisis.

Although other business groups—like the Environmental Entrepreneurs, the California Ski Industry Association, and the New Voices of Business—lent their support to *AB 32* before Small Business California, these organizations were industry-specific or environmentally-oriented. This is not to diminish their role in *AB 32*'s passage; it is simply an acknowledgment that the support of Small Business California went beyond the conventional. Small Business California is a not an environmental organization. We advocate for the best interests of the more than 1.1 million small businesses in California on a range of issues—including health care, regulatory burden, and access to capital—and we advocated for the passage of *AB 32* because we believed it was in the best interests of California's small businesses.

Small Business California thought the passage of AB 32 would help California's small business in three important ways. First, AB 32 has the potential to help small businesses find ways to reduce their energy use. Small businesses in California, and around the country, waste too much energy—not because they have made a conscious, business decision to waste money and resources, but because they do not know how to reduce their energy use. Small businesses are all too happy to reduce their energy use and costs when they know how-65 percent of the respondents to a survey Small Business California conducted last month reported that they had taken steps to reduce their energy use. This finding is consistent with results from similar surveys conducted over the past two years. Second, the effort to combat global warming and curb emissions is creating new industries, which is good for small businesses. America's small businesses, which lead the nation in research and development and create a majority of the nation's new jobs, are nimble and innovative. We are confident that California's small businesses will take advantage of the opportunities presented by AB 32 and thrive. Third, we believe that even those small businesses not on the cutting edge of innovation will find increased business opportunities in the wake of AB 32's passage, because they provide services that reduce energy use. For example, air-conditioning contractors have stated that simple air-conditioner maintenance will present them with a lot of businesses opportunities to reduce energy use

I am proud of the leadership role Small Business California took on this issue. We received a lot of criticism for our actions and were opposed by most of the established business associations. The position we adopted was based on our belief that it was both the right thing to do and in the best interests of the California's small businesses. We also were intent on being involved in the discussion of how the measure would be implemented, rightly believing that California's small businesses deserved a seat at that table. I have since been named to the Advisory Committee that will implement *AB 32*—a move as historic as it is deserved and overdue.

National Small Business Association

As I previously outlined, in addition to my role with Small Business California, I am vice chair of advocacy at the National Small Business Association, which recently adopted a comprehensive energy policy. Acknowledging that global climate change is real, the small-business members of NSBA believe that the time has come to conclusively address America's oil dependence and the shortcomings of its national energy policy.

NSBA supports increasing and diversifying America's domestic energy production, and encouraging the research and development of viable and cost-competitive clean and renewable energy solutions. This effort will no doubt require the initiation of myriad regulatory and administrative actions. NSBA is not in the habit of recommending new governmental programs or increased regulatory and tax burdens—preferring free enterprise, market solutions, and a neutral tax system—but the unique and urgent contours of America's environmental and energy policies and energy industry demand governmental intervention. Although I am confident that such an action can be successful, I cannot stress enough that it must be realistic, flexible, and science-based. It also must focus on technological innovation, the development and use of cleaner energy alternatives, and an increase in energy efficiency and conservation. It should utilize the power of the market and protect American businesses and jobs. It also must avoid placing too onerous a burden on America's small businesses, which are particularly vulnerable to increased regulatory and tax obligations and already shoulder a disproportionate share of the costs of federal regulations and paperwork compliance.

Green Gazelles

This national endeavor must not only protect small businesses, however, it must make full use of them. At the forefront of the effort to protect the environment, provide cutting-edge energy solutions, drive economic growth, and create new jobs are "innovative, entrepreneurial, profitable and fast growing small businesses" known as Green Gazelles. Despite their inherent potential, too often these innovative firms have been ignored by the federal government. Increased federal incentives and funding must be provided to these pioneering small businesses.

The need to increase the allocation of federal research and development (R&D) to small businesses is clearly illustrated by the Small Business Innovation Research (SBIR) program, which helps small-business innovators compete for federal R&D funds and requires eleven federal departments and agencies, including the Department of Energy and the Environmental Protection Agency, to reserve a portion of their R&D budgets for small businesses. Small technology firms with less than 500 employees now employ 54.8 percent of all scientists and engineers in U.S. industrial research and development. Yet, these nearly 6,000 scientists and engineers are able to obtain only 4.3 percent of extramural government R&D dollars. Congress should build upon the successes of the SBIR program—which has delivered more than 50,000 technology patents and is now doing so at the rate of seven patents a day—during SBIR's upcoming reauthorization process and increase the percentage of agencies' R&D funds reserved for small businesses

We know federal research and development can pay tremendous dividends. A National Research Council report found, "that DOE's RD&D [Research, Development, and Demonstration] programs in fossil energy and energy efficiency have yielded significant benefits (economic, environmental, and national security-related), important technological options for potential application in a different (but possible) economic, political, and/or environmental setting, and important additions to the stock of engineering and scientific knowledge in a number of fields." ¹

In fact, the report found that although "most projects yielded few (or no) public benefits, the ones that were successful provided national benefits significantly exceeding the *total* cost of the energy R&D [research and development] program."²

Diversify Domestic Production

While technological innovation presents the best prospects for a long-term solution to America's oil dependence and emissions production, the advances necessary to extend the nation beyond the fossil-fuel era will require a concerted national effort and the federal government has an important role to play in this regard. As a recent report, "American Energy: The Renewable Path to Energy Security," found,

Across the United States and around the world, there is one clear lesson from past policy experiments: wherever renewable energy industries have emerged, government policy reforms have played a central role. The key to a bright American energy future and a new wave of economic activity and innovation is a robust partnership between government and the private sector—providing incentives to jumpstart the new energy industries while minimizing the cost to American taxpayers.³

The United States has a long history of failed and abandoned energy initiatives. Discarded, short-sighted, and misguided government policies have stifled innovation, deterred investment, and ruined many companies. Federal subsidies too often have favored fossil-fuel technologies over the development of renewables. All this must change. It is imperative that the U.S. establish clear, long-term goals for renewable energy use. It must construct a "consistent, predictable, and long-term framework of rules and incentives" for the development of renewable energy sources. It also must increase real incentives, such as investment tax credits, for small businesses and consumers to use alternative-energy and energy-efficient products and services and boost its support for research and development into clean and renewable energy technology—including the cutting-edge work of the nation's Green Gazelles. As a number of experts recently testified before the U.S. Senate Finance Committee, during a hearing entitled, "America's Energy Future: Bold Ideas, Practical Solutions" stable and long-term tax incentives are crucial for stimulating private sector investment in alternative energy sources.

There is a positive net job impact from increasing the use of renewable energy, according to a number of studies cited in a Union of Concerned Scientists report.⁶ In a joint report, "American Energy: The Renewable Path to Energy Security," the Center for American Progress and the Worldwatch Institute state that "renewable energy creates more jobs per unit of energy produced and per dollar spent than fossil fuel technologies do." Furthermore, many renewable energy technologies will be employed in a multitude of diverse locations, which reduces the "risk of accidental or premeditated grid failures cascading out of control."

Micro Power

Generally located on-site or in very close proximity and connected to local distribution lines, micro power plants—such as rooftop solar systems, bio-fuels generators, or small wind turbines—usually have generating capacities of five megawatts or less. In addition to reducing or eliminating line loss via improved transmission efficiency, micro plants do not require transmission or distribution investment and provide a very reliable power supply. According to a joint report by Worldwatch Institute and the Center for American Progress, however, micro plants are not currently in wide use because "everything from electricity laws to environmental and tax regulations are often structured in ways that disadvantage" them. Existing laws and regulations

that penalize the use of micro power should be modified or abolished. Congress also should encourage the construction of "smart grids" and enactment of net-metering provisions, both of which will facilitate more extensive micro-power production.

Net Metering

Net-metering allows small-energy producers to sell their excess energy back to the local grid, either at wholesale or retail prices or by having their electric meters turned back to offset future consumption over a billing period. ¹⁰ Unfortunately, many states have yet to enact net-metering regulations. Additional net-metering regulations should be enacted—especially those that will increase the economic incentives to end users to utilize net metering opportunities while protecting the interests of utilities.

Increase Energy Efficiency

Improving America's energy efficiency must be a central component of any national effort to confront climate change and the country's energy dependence. More than two-thirds of the energy content of the fossil fuels consumed in the U.S. is simply lost—in power plants and motor vehicles—as waste heat. It is time for the United States to reverse its historic trend of discouraging energy efficiency and make a concerted effort to reduce waste.

Well-designed energy efficiency programs can save the equivalent of about one percent of the country's annual electricity and natural gas sales, protecting the environment by reducing per capita energy consumption and helping consumers and businesses save money. Various state and regional studies have concluded that improved energy efficiency could save more than 20 percent of total U.S. electricity demand by 2025. "At an average cost of about one-half of the typical cost of new power sources and about one-third of the cost of natural gas supply," well-designed energy efficiency programs also are much more cost effective than increasing supply and usually can be deployed much faster. To achieve these economic and environmental benefits, however, the U.S. must bolster its spending on energy efficiency programs, which currently amounts to less than \$2 billion per year in total.

Recognizing that energy efficiency is a "critically underutilized" aspect of the nation's energy strategy, as part of its comprehensive energy policy, NSBA recently endorsed the policy recommendations outlined in the *National Action Plan for Energy Efficiency* (*Action Plan*), which seeks to lay a path to a "sustainable, aggressive national commitment to energy efficiency." If fully implemented, the *Action Plan* could forestall the need for approximately 40 new 500-megwatt power plants, reduce natural gas prices, avert the release of greenhouse gases equivalent to 35 million cars, and yield annual energy savings of nearly \$20 billion. NSBA supports the *Action Plan*'s call that the U.S.:

- Recognize energy efficiency as a high-priority energy resource;
- Make a strong, long-term commitment to implement cost-effective energy efficiency as a resource;
- Broadly communicate the benefits of and opportunities for energy efficiency. (It is especially important that this effort reaches America's small businesses);
- Promote sufficient, timely, and stable program funding to deliver energy efficiency where cost-effective; and
- Modify policies to align utility incentives with the delivery of cost-effective energy efficiency and modify ratemaking practices to promote energy efficiency investments.

NSBA also is pleased to support the *EXTEND the Energy Efficiency Incentives Act of 2007*, which provides necessary enhancement of the *2005 Energy Policy Act*. I would particularly like to thank Ranking Member Snowe and Senator Diane Feinstein, from my home state, for their leadership, through the introduction of this bill, in helping U.S. small businesses finance the construction of energy-efficient buildings and pay for retrofit energy-efficiency improvements.

Energy Star

The Energy Star Small Business program—an important offshoot of the Federal Energy Star program, which was created through a partnership with the EPA and DOE to identify and promote energy-efficient products and practices—provides helpful technical support and information to small businesses trying to conserve energy and improve efficiency. Its resources allow small businesses to explore the options available in energy-efficient products, services, and financing as well as the tools to calculate the costs and payback periods of various products and updates.

While the Energy Star Small Business program has been highly successful—it estimates that it helped American save more than \$12 billion on their energy bills last year alone—its full, vast promise has yet to be realized, as its limited budget has hindered its ability to reach the general small business community. In fact, only 60 percent of the respondents to a recent NSBA energy survey reported being familiar with the Energy Star label. This lack of visibility must change. The budget of the Energy Star Small Business program must be increased. Now—this year and this budget. Furthermore, the existing Energy Star rating should be adopted as a "standard" for federal support instead of each government agency developing a new energy rating system. For example, environmental and energy-related federal grants to universities and small businesses should require that an Energy Star rated product be the result of the research.

With limited funding, electronic outreach is the most cost effective way for the Energy Star program to get information to as many businesses as possible. Online information and technical content about Energy Star should be readily available on SBA, EPA and DOE web sites. The Web links need to be highly visible, easily navigated and well-maintained in order to be most efficient in providing information to the consumer. The three agencies should integrate and promote key Energy-Star provided hotlinks (e-updates, guides) directly from their home pages to the Energy Star Small Business home page (www.energystar.gov/smallbiz)—as NSBA and Small Business California have done. EPA should provide the SBA with the necessary links—including those to small business, products, business improvements, and home improvements.

Although Energy Star maintains a toll-free number (1-888-STAR-YES), which connects to tech support, more needs to be done to promote this service to small businesses. The Energy Star Small Business Web site should contain information about the toll-free number and what it offers: tech support and advice. Additionally, DOE and EPA should generate public service announcements on Energy Star-labeled equipment geared directly to small businesses. The current public service announcements show images of homeowners or general consumers and do not reflect the specialized needs of most small businesses. The Energy Star Small Business program also should be more frequently advertised in trade publications, as nearly a quarter of NSBA survey respondents reported using them as a primary source of information on energy efficiency. Of course, such expanded outreach requires more money, so I will say it again: the budget of the Energy Star Small Business program must be increased.

Simply making more small businesses aware of the benefits of improved energy efficiency is not enough, however. More must be done to help small businesses afford and utilize energy-efficient products and services. Congress should extend existing tax incentives for the purchase of Energy Star products and establish additional tax incentives for a larger range of energy-efficient products and services. On-Bill Financing is a proven method of providing improved capital access to small businesses seeking improved energy efficiency. It allows small businesses to borrow funds from their utility companies to purchase or rent energy-efficient products and services with no upfront costs. The minimal or no-interest loans, attained with little paperwork, are repaid from savings on the small businesses' utility bills. ¹⁴ Congress should extend On-Bill Financing and other access-to-capital innovations currently offered in some states to small business across the nation.

For small businesses to receive the best interest rates on their loans or the largest rebates for their energy-efficiency purchases, accurate and detailed energy metering is required. Ideally, this metering will provide continuous commissioning—in real-time via the Internet—that records both baseline and actual performance. This kind of ongoing measurement and verification lowers the risk premium for small businesses investing in energy efficiency to a point where it is comparable to other investments. Congress should expand opportunities for "continuous commissioning."

It is easy for me to sit here and tell you what I think Congress should do to increase energy efficiency within the small business community—although maybe not as easy as it looks—but U.S. small businesses are ready to do more than just talk. Accordingly, it is my pleasure to announce here today for the first time that the National Small Business Association, in partnership with the Energy Star Small Business program, will soon challenge the 150,000 small businesses we reach to reduce their energy use by 10 percent or more as part of the Energy Star Challenge.

Through the Energy Star Challenge, NSBA members will assess and track the energy performance of their facilities using EPA's rating tool, Portfolio Manager. Setting energy efficiency goals and tracking progress are important practices in implementing an effective energy management program. The energy information entered into Portfolio Manager by NSBA members will allow not only individual dealerships but the small business community as a whole to monitor the significant reductions that will result from operational improvements. The Energy Star Small Business program also will provide participants with webcast training, expert support, and more.

Revolutionize U.S. Transportation and Automotive Industries

Transportation is the crux of America's oil dependence: 97 percent of the oil used in the United States is consumed for transportation.¹⁵ Only about two percent of the energy consumed by the nation's transportation fleet comes from renewables.¹⁶ Automobile emissions also are the second-largest source of carbon dioxide in the country. This must change. It is time to make a concerted effort to revolutionize the country's transportation and automotive industry. If the United States is to reduce domestic demand, regulatory incentives to use more fuel-efficient vehicles are needed.

Hybrid Vehicles

Hybrid vehicle technology, especially the plug-in hybrid variety, has the potential to help curb America's oil dependence and its global warming pollution, and this potential must be fully

explored. Small-business owners personally are willing to explore the potential for energy savings that advanced vehicle technology presents—68 percent of the respondents to a NSBA energy survey reported a willingness to lease an alternative-service vehicle if it could provide, per mile of use, significant overall cost reduction. NSBA supports increased funding and incentives for plug-in hybrid vehicle technology, including advanced battery research. NSBA also supports consumer-tax incentives—without limits on the number of qualifying vehicles—for the purchase of highly-efficient hybrid, clean-diesel, and compressed-air vehicles.

Alternative Fuels

NSBA also supports the continued expansion of ethanol utilization and the removal of the protectionist 54 cents per gallon tariff on imported ethanol. NSBA recommends increased funding and incentives for the use and research and development of biodiesel and other biomass-derived fuel. NSBA also backs increased funding and incentives for biomass research with the goal of making cellulosic ethanol cost competitive with corn-based ethanol by 2012. Finally, NSBA urges federal incentives, especially for small businesses, to increase the use of hydrogen energy, and increased federal investment into the research and development of hydrogen energy. With hydrogen-powered buses operating in Chicago, Toronto, and Reykjavik—and on the horizon in London, Madrid, and Hamburg—as well as the news that FedEx and UPS plan to phase in fuel-cell trucks over the next five years—NSBA is insistent that small businesses should not be left behind in the early utilization of this emerging technology.

Fuel Efficiency/CAFE Standards

Higher gasoline mileage standards have been called the "most-needed reform in the U.S. energy policy," and with good reason. ¹⁷ The average fuel economy of a new vehicle sold in 2001 was lower than the average fuel economy of a new vehicle sold two decades earlier. ¹⁸ At 25 miles to the gallon (mpg), the original 1903 Model T was more fuel efficient than the average new Ford vehicle, at 22.6 mpg, sold in 2003. ¹⁹ This is not progress.

The Corporate Average Fuel Economy (CAFE) standards—first established by the U.S. Congress in 1975, largely in response to the nation's first oil shock —have lagged behind the nation's need for increased fuel efficiency for far too long. 20 While NSBA applauds the Bush Administration's increase of CAFE standards for light trucks and sports utility vehicles (SUVs)—the first such increase in a decade—from 20.7 mpg to 22.2 mpg for the 2007 model year vehicles, more must be done to improve the fuel efficiency of the nation's transportation fleet.²¹ A 2001 report from the National Academy of Sciences concluded that existing technologies could produce a 25-to-35 percent increase in fuel efficiency for new cars, pickup trucks, and SUVs—without sacrificing safety or comfort.²² This improved fuel-economy standard would displace as much petroleum as the "United States currently imports from Persian Gulf dictatorships."²³ NSBA supports an incremental but steady increase in the nation's CAFE standards and permanently closing the SUV CAFE standard loophole. In keeping with the recommendations of the National Academy of Sciences, NSBA also supports continued federal funding, in cooperation with the automotive industry, of "precompetitive research aimed at technologies to improve vehicle fuel economy, safety, and emissions."²⁴ Finally, NSBA supports the efforts of the EPA and automakers to improve the accuracy of the miles per gallon estimates of new vehicles. It is imperative that consumers, especially small businesses, be provided with accurate fuel efficiency information so that they can make informed decisions regarding their transportation needs.

Conclusion

This concludes my testimony. Thank you again for inviting me here today and for recognizing the vital role America's small businesses can and should play in any effort to address global climate change, America's oil dependence, and the shortcomings of its national energy policy. I thank you for your time and welcome any questions.

Notes

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